

Message Text

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PAGE 01 CARACA 04156 052036Z
ACTION ARA-14

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LIMITED OFFICIAL USE CARACAS 4156

PASS TO OED/MEPD AND OIM

E.O. 11652: NA
TAGS: BENC, VE
SUBJECT: MAJOR PROJECT: PELLETIZING PLANT

REF : CARACAS 4155

1. POST LEARNED IN LATE JANUARY 1978 THAT FERROMINERA HAD BEEN APPROACHED BY VOEST ALPINE (AUSTRIA) REGARDING CONSTRUCTION OF A 3.3 MILLION MT/YR CAPACITY PELLETIZING PLANT. FERROMINERA HAD BEEN INTERESTED IN ESTABLISHING SUCH A PLANT FOR SOME TIME BUT THE SOFT WORLD MARKET FOR IRON ORE PELLETS HAD SERVED TO DAMPEN THEIR ENTHUSIASM. VOEST, NEARING COMPLETION OF TWO 3.3 MILLION MT/YR UNITS FOR CVG-SIDERUGICA DEL ORINOCO (SIDOR), REPORETEDLY ASSUAGED FERROMINERA'S FEARS ABOUT THE MARKETABILITY OF SUCH A LARGE QUANTITY OF PELLETS BY OFFERING TO PURCHASE 1.8 MILLION TONS OF PRODUCTION ANNUARLLY FOR THE FIRST TEN YEARS OF OPERATION OF THE PLANT (THE YEARLY REMAINDER OF 1.5 MILLION MT WILL REPORTEDLY BE SOLD TO U.S. STEEL).

2. DRAVO CORPORATION'S TOP MANAGEMENT DISCUSSED THEIR INTEREST IN THE PELLETIZING PLANT WITH DR. SAMUEL LUCHSINGER, PRESIDENT OF FERROMINERA, DURING A VISIT THEY MAE TO VENEZUELA IN FEBRUARY, 1978. POST LEARNED IN EARLY MAY THAT DRAVO HAS MADE OFFER TO
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PAGE 02 CARACA 04156 052036Z

FERROMINERA TO BUILD 2.0 MILLION MT/YR. CAPACITY PLANT. DRAVO WOULD AGREE TO PURCHASE FROM FERROMINERA AND MARKET THE 500,000 MT THAT WOULD REMAIN AFTER THE 1.5 MILLION MT ANNUAL PURCHASE BY U.S. STEEL. DRAVO'S MARKETING EXPERTS REPORTEDLY BELIEVE THAT 500,000 MT IS THE MAXIMUM THE CORPORATION CAN HANDLE BECAUE OF WEAK PROJECTED WORLD DEMAND AS WELL AS DRAVO'S WISH NOT TO GET INTO PRICE WARS WITH OWNERS OF OTHER PELLETIZING PLANTS THE CORPORATION

HAS PREVIOUSLY CONSTRUCTED.

3. COMMENT: THE VOEST OFFER WILL BE VERY HARD TO BEAT.
VOEST'S POSITION, EVEN WITHOUT THE PURCHASE OFFER, IS VERY STRONG
BECAUSE OF THE GOOD TRACK RECORD IT HAS ESTABLISHED WITH SIDOR
AND, JUST AS IMPORTANT, THE TEAM OF MANAGERS AND WORKERS IT HAS
ON SITE IN THE CHRONICALLY LABOR-SHORT PUERTO ORDÁZ REGION.
PERHAPS THE BEST APPROACH A U.S. FIRM COULD MAKE REGARDING THIS
PROJECT WOULD BE TO PRESENT, IN ADDITION TO AN MARKETING ARRANGEMENT,
A FINANCING PACKAGE THAT WOULD CALL FOR MINIMAL SHORT TERM CASH
FLOW FROM THE CASH-STRAPPED CVG PARENT ORGANIZATION.
VAKY

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